QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Thursday, November 28, 2013

Update on Québec's Economic and Financial Situation

ECONOMIC OUTLOOK

In 2013, real GDP will continue to grow in Québec at a more modest pace than forecast, i.e. 0.9%. Growth will accelerate thereafter, reaching 1.8% in 2014 and 2015.

Québec's labour market remains in a positive trend. 44 600 jobs should be created in 2013, an increase of 1.1%. In 2014, employment should gain 1.0%.

- The unemployment rate should continue to decline, falling from 7.8% in 2012 to 7.7% in 2013 and 7.6% in 2014.

QUÉBEC'S ECONOMIC OUTLOOK

(percentage change)

	2013	2014	2015
Real gross domestic product	0.9	1.8	1.8
Exports	2.6	2.9	3.2
Housing starts (thousands of units)	37.3	37.4	36.8
Job creation (thousands)	44.6	39.8	38.3
Unemployment rate (%)	7.7	7.6	7.4
Consumer price index	0.9	1.8	2.2
Canadian financial markets			
Overnight target rate	1.0	1.0	1.4
Canada Treasury bills – 3 months	1.0	1.0	1.4
Canada bonds – 10 years	2.3	3.3	4.0

CHANGE IN THE BUDGETARY SITUATION

More moderate economic growth than forecast and low inflation have had a major impact on public finances. Since the March 2013 update, downward revisions have been made to the government's revenue, resulting in a significant revenue shortfall.

Given the size of the revisions, returning to fiscal balance is deferred to 2015-2016. The financial framework forecasts:

- a budget deficit of $2.5 billion in 2013-2014;
- a budget deficit of $1.75 billion in 2014-2015;
- a balanced budget as of 2015-2016.

CONTINUED RIGOROUS EXPENDITURE MANAGEMENT

The amount of program spending for 2013-2014 remains unchanged. For 2014-2015 to 2016-2017, program spending will grow by 2.0% per year.

DEBT REDUCTION OBJECTIVES MAINTAINED AND ADDITIONAL DEPOSITS TO THE GENERATIONS FUND AS OF 2016-2017

The debt reduction objectives for 2025-2026 are maintained, i.e. 45% of GDP for the gross debt and 17% of GDP for the debt representing accumulated deficits.

The increase in the debt arising from the deficits in 2013-2014 and 2014-2015 will be offset by additional deposits of $425 million per year to the Generations Fund as of 2016-2017.

THE QUÉBEC GOVERNMENT'S FINANCIAL FRAMEWORK

(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Budgetary revenue[1]	**67 566**	**69 806**	**71 468**	**74 243**	**76 622**	**78 993**
Budgetary expenditure[1]						
Program spending	–62 247	–63 825	–65 106	–66 390	–67 750	–69 981
Debt service	–7 766	–8 583	–8 679	–8 810	–9 084	–9 206
Total budgetary expenditure[1]	**–70 013**	**–72 408**	**–73 785**	**–75 200**	**–76 834**	**–79 187**
Consolidated entities	**1 808**	**1 171**	**1 463**	**1 818**	**2 420**	**2 990**
Contingency reserves	—	—	—	–200	–200	–200
Shortfall to be offset	—	—	400	1 000	400	400
Exceptional loss – Closing of Gentilly-2	–1 876	—	—	—	—	—
SURPLUS (DEFICIT)	**–2 515**	**–1 431**	**–454**	**1 661**	**2 408**	**2 996**
BALANCED BUDGET ACT						
Deposits of dedicated revenue to the Generations Fund	–961	–1 069	–1 296	–1 661	–1 983	–2 571
Additional deposits to the Generations Fund	—	—	—	—	–425	–425
Exclusion – Exceptional loss	1 876	—	—	—	—	—
BUDGETARY BALANCE[2]	**–1 600**	**–2 500**	**–1 750**	—	—	—

(1) Revenue and expenditure of the general fund.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

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THE GOVERNMENT'S FINANCING PROGRAM IN 2013-2014

(millions of dollars)

	March 2013 update	Revisions	Revised program	Completed[1]	To be completed
GENERAL FUND					
Net financial requirements (surplus)[2],[3]	–392	3 061	2 669		
Repayments of borrowings	4 569	72	4 641		
Use of the Generations Fund to repay maturing borrowings	–1 000	—	–1 000		
Change in cash position[4]	–2 646	–839	–3 485		
Deposit to the Retirement Plans Sinking Fund[5]	—	500	500		
Transactions under the credit policy[6]	—	–84	–84		
Additional contributions to the Sinking Fund for borrowings	2 140	1 398	3 538		
GENERAL FUND	**2 671**	**4 108**	**6 779**		
FINANCING FUND	**8 000**	**–317**	**7 683**		
Subtotal – General fund and Financing Fund	**10 671**	**3 791**	**14 462**	**10 940**	**3 522**
FINANCEMENT-QUÉBEC	**1 000**	—	**1 000**	**1 000**	—
TOTAL	**11 671**	**3 791**	**15 462**	**11 940**	**3 522**
Including: repayments of borrowings[7]	9 538	77	9 615		

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

(1) Borrowings completed as at November 22, 2013.
(2) These amounts exclude net financial requirements of consolidated entities funded through the financing program of the Financing Fund.
(3) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.
(4) Corresponds to pre-financing made in 2012-2013.
(5) Deposits to the RPSF are optional. They are recorded in the financing program only once they are made.
(6) Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives amounts because of movements in exchange rates. These amounts have no effect on the debt.
(7) Includes repayments of borrowings of the general fund ($4 641 million), the Financing Fund ($1 252 million) and Financement-Québec ($3 722 million).

THE GOVERNMENT'S FINANCING PROGRAM IN 2014-2015 AND 2015-2016

(millions of dollars)

	2014-2015[F]	2015-2016[F]
GENERAL FUND		
Net financial requirements[1],[2]	2 638	1 968
Repayments of borrowings	7 634	7 077
GENERAL FUND	**10 272**	**9 045**
FINANCING FUND	**8 354**	**7 156**
Subtotal – General fund and Financing Fund	**18 626**	**16 201**
FINANCEMENT-QUÉBEC	**1 000**	**1 000**
TOTAL	**19 626**	**17 201**
Including: repayments of borrowings[3]	12 278	10 144

F: Forecasts.

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

(1) These amounts exclude net financial requirements of consolidated entities funded through the financing program of the Financing Fund.
(2) Net financial requirements are adjusted to take into account the non-receipt of the RPSF and of funds dedicated to employee future benefits.
(3) Includes repayments of borrowings of the general fund ($7 634 million in 2014-2015 and $7 077 million in 2015-2016), the Financing Fund ($1 133 million in 2014-2015 and $1 187 million in 2015-2016) and Financement-Québec ($3 511 million in 2014-2015 and $1 880 million in 2015-2016).

THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
DBRS	A (high)	Stable
Fitch	AA–	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable

THE GOVERNMENT'S FINANCING PROGRAM

The financing program for 2013-2014 is expected to amount to $15 462 million. This is $3 791 million more than forecast in the March 2013 *Update on Québec's Economic and Financial Situation*.

For 2014-2015 and 2015-2016, the financing program should amount to $19 626 million and $17 201 million respectively.

So far in 2013-2014, $11.9 billion has been borrowed on financial markets, including $10.5 billion on the Canadian market, i.e.:

- $7.1 billion through public issues;
- $2.4 billion through private borrowings;
- $1.0 billion through other types of borrowings.

So far in 2013-2014, the government has carried out 12.1% of its borrowings on foreign markets, i.e.:

- a borrowing of €65 million (C$88 million) in June 2013;
- a borrowing of €1 000 million (C$1 358 million) in July 2013.

For borrowings completed so far in 2013-2014, 38.2% have a maturity of less than 10 years, 36.2% mature in 10 years and 25.6% have a maturity of 30 years or more.

As at March 31, 2013, the average maturity of the debt stood at 12 years.

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